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ACCOUNTING REGULATIONS OF NON PROFIT ORGANIZATIONS

BACHELOR'S DEGREE IN FINANCE AND ACCOUNTING

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ABSTRACT:

In this work we will study the accounting of non-profit organizations. This sector is very heterogeneous and this is in continuous development. These organizations are characterized principally by the pursuit of the social profit.

We will talk about the existing legislation for these entities, tax and accounting, but we will focus in the analysis of accounting regulation due to this represent the central theme of our work. For this, we will study with accurately regulations of non-profit organizations, and these will be compared with the companies' regulations. Furthermore we will analyze accounting differences that we found between non-profit entities and enterprises.

KEYWORDS:

- Non-profit organizations
- Adaptation of the General Accounting Plan to non-profit organizations
- Accounting regulations

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1. INTRODUCTION

The concept of non-profit organizations is not easy to define. Its main characteristic resides within their aim or purpose, which is not the maximization of their economical results but the search for a social benefit, be it of a general or particular interest.

A feasible approach to the definition of non-profit organization could be made by observing the allocation of the surplus obtained during the exercise. According to this approach we can affirm that lucrative entities divide and allot their benefits among the shareholders or owners in the shape of dividends, whereas non-profit institutions make use of their surplus to cover for the needs of a generic collective group of people (which is usually disadvantaged or suffering from some sort of social exclusion).

Regarding the non-profit domain, we must point out that this is a complex and heterogeneous field, since one can find great differences when it comes to the size of the different organizations, the number of resources they deal with, and the type of services they offer.

When talking about non-profit organizations, we will refer all along this study to foundations and associations with a declared public utility (which tend to have a relatively large size and are considered pure non-profit organizations), except when noted otherwise.

The main reason for carrying out this analysis was the uncertainty with regards to the accountancy learnt throughout the Bachelor’s Degree in Finance and Accounting, and its applicability or relevance when dealing with this kind of organizations.

Once the accounting regulations have been studied, and observing the specific characteristics of these organizations, we will point out that business accounting and the regulations for Non-Profit organizations differ, as contemplated by the Institute of Accounting and Account Audits. However, these differences are often generated by different interpretation criteria applied to the data of the financial statements, rather than the specific set of regulations to apply to each case.

After knowing the context in which these type of firms operate, another key element for this study was the recent passing in 2011 of an adaptation of the General Accountancy Plan (“GAP”, from now on). This amendment put an end to the coexistence of two different regulations in this field, as a new GAP had been created in 2007, while this kind of organizations were still operating under the amendment approved in 1998.

We must specify that the *Royal Decree 1491/2011*, approving the rules of Amendment of the GAP to non-profit organizations also includes their Action Plan. Said Action Plan appears as a simple budget for the activities to be carried out by the NPO during the following accounting year, also showing the main goals or targets to achieve with these activities. However, this regulation has not been studied in our work (although we do not discard an eventual analysis in the future).

The main objective or purpose of this work resides within the comparison of both accounting regulations: the business GAP and the Adaptation of the GAP to non-Profit Organizations, in order to detect the differences mentioned above. Likewise, we will also carry out a more precise study of this kind of organizations' accountancy.

Once the analysis has been made, the main question refers to the documents integrating the annual accounts, especially with regards to the interpretation of the data. We can also point out the differences in the definition of assets, in the treatment of grants, donations and bequests, and the appearance of new assets lines such as the Historical Heritage Assets, among others.

To achieve the established premises, we have structured the work in for parts, as follows:

In the first section, *Contextualization of non-profit organizations*, we have detailed the characteristics of this type of organizations; the entities we consider to be the most representatives among these non-profit institutions (foundations).

En the second one, *General regulations of non-profit organizations,* we focus on the current regulations which rule said institutions, both on their fiscal and accounting aspects, with a review of former regulations.

Lastly, on the fifth section, *Adaptation of the General Accounting Plan to non-profit organizations*, we will develop more precisely the accounting regulations for these institutions, while analyzing the differences found regarding the business GAP. To complete this analysis we follow the same structure which appears in both the GAP and the Adaptation for Non-Profit organizations: firstly, we state the accounting conceptual framework; we continue afterwards with valorization and registration regulations and lastly we conclude with annual accounts. On the other hand, with regards to the accounts frame and accounting definitions and relationships, we do not carry out any kind of description, as we have considered them less relevant than the other subjects.

2. CONTEXTUALIZATION OF NON-PROFIT ORGANIZATIONS

2.1. CHARACTERISTICS AND CLASSIFICATION

Organizations or institutions may be classified according to various criteria. One categorization could be made in relation to their aim or objective, and so we find: for-profit entities and Non-Profit organizations, the main goal for the first group being the obtaining of a benefit to be divided among shareholders or proprietors. Most academic studies have focused on these enterprises or business societies, whereas non-profit institutions have often been neglected.

Non-Profit Organizations (NPO, from now on) have as a main characteristic the search for a social benefit as their ultimate goal, and they can be both public or private.

NPO can adopt a number of diverse legal forms: commercial entities, foundations, associations, public corporations, sports federations, cooperatives, etc., although they usually take up the form of foundations, associations, friendly society or cooperatives, the latter may or may not have an economic-profit goal. Thus, depending on their constitution, these entities will have to obey their respective regulations. In the case of foundations, for instance, we have the *Law 50 of 26 December 2002 for Foundations.* As per their accounting regulations, we find the *Royal Decree 1491 of 24 October 2011*, in which the rules for adapting the GPA to non-profit entities are approved.

We will then briefly define some of the different aforementioned entities, further explaining the foundations as they are the most common non-profit type of organization.

An association is a Non-Profit entity formed by an ensemble of persons (partners) organized to achieve a determined and licit common goal. Associations have legal personality, and so are the owners of the assets contributed by the different members while having the capacity to acquire rights and obligations.

A public law corporation is a Non-Profit entity with legal personality established by law, which determines its objectives, organization and functioning.

A sport federation is a Non-Profit organization with legal personality. Like associations, they own a stock of assets independent from their members'.

Finally, a cooperative is an organization formed by a group of persons voluntarily joined and whose intention is to face the needs and achieve the objectives of its members, which will be the social object of the institution. There are, however, some authors who leave these category of organizations out of the so-called Non-Profit entities group, as their added value or surplus is shared among its members, even if it's not in the shape of dividends (as it happens with business companies).

2.2. FOUNDATIONS: DEFINITION AND PARTICULARS

The foundation is the main kind of Non-Profit organization, and so studies about this legal form are as abundant as extensive and large are its regulations.

We will now focus our interest on defining foundations and explaining briefly their way of functioning.

The first Spanish law concerning foundations dates back to 1994. Until then there were various regulations but not a specific law covering all the relevant aspects of foundations. From that moment on, and in less than ten years, social changes and the ever growing evolution and importance of this kind of organizations have led to the passing of a new law in 2002, the *Law 50/2022*.

According to Article 2 of the *Law 50 of 26 December 2002 for Foundations*, these are defined as "Non-Profit organizations whose assets are, according to the free will of their creators, destined to the realization of a general interest purpose".

From this definition we can deduce its characteristics:

- They are organizations, consequently they have a legal personality and assets of their own, an individual whole independent from its members.
- Constituted on a Non-Profit basis (its mean feature): it means they do not aim to the maximization of their income statement.
- Durable destination of their assets to the realization of general interest purposes. We find here two limits for the duration of these institutions: the need to keep their goods and assets to back up their performance, and the existence of the mentioned general interest.
- Ruled by the will of their creators: they must be ruled according to the will of their founders, as well as to their statutes, and in all event by the law. It is worth stressing that these entities do not have a democratic structure, as it is the founders' will included in the statutes which determines the decisions taken by the foundation, and it is the patronage and not its members who carry out the actions needed to fulfill the founding mandate.

The foundation endowment can be defined as the ensemble of goods and rights assigned to the entity for the attainment of the social purposes proclaimed in the Statues; in order to achieve said purposes they should be sufficient and appropriate. This concept, from a commercial enterprise's point of view, is similar to what we commonly known as share capital.

The founding assets is formed by the goods and rights of all kind, susceptible to economic valuation, and therefore includes not only the foundation endowment but also all the goods belonging to the foundation. With regards to the administrations and disposition of the assets, this corresponds to the patronage.

As seen on the article 23 of the *Law 50 of 26 December 2002 for Foundations*, said foundations should:

- Use their assets and annual incomes to the achievement of their social purpose, according to what is established in the Law and the Statutes.
- Provide enough information about their objectives and activities so that they will be known by all potential beneficiaries and other interested parties.
- Behave according to impartiality and non discrimination while determining their beneficiaries.

We must emphasize that foundations may obtain financial income for their activities as long as this does not imply an unjustified limitation of the scope of potential beneficiaries, as stated on the article 23 of the *Law 50 of 26 December 2002 for Foundations.*

To conclude, it is important to remark that the key aspect for an organization to acquire its Non-Profit qualification does not lie in the obtaining of a surplus, be it what is known as gain or loss, but the use of said surplus. Even if an entity obtains a positive surplus, it will be considered as Non-Profit if said surplus is used for a general interest.

3. GENERAL REGULATIONS OF NON PROFIT ORGANIZATIONS

3.1. ACCOUNTING REGULATIONS

As provided in the *Law 30 of 24 November 1994 for Foundations and Fiscal Incentives to the Private Participation in General Interest Activities,* which forced the Government to pass the adaptation of the GAP to non-profit entities, the Royal Decree 776 of 30 April 1998 was granted, approving the regulations to adapt the General Accounting Plan to non-profit institutions and the rules of budget information for these entities. The passing of this law constituted the first accounting regulation for non-profit organizations in Spain.

After the publishing of the GAP by means of the *Royal Decree 1514 of 16 November 2007*, and the GAP for SMEs with the *Royal Decree 1515 of 16 November 2007*, non-profit organizations needed a new accounting regulation based on the new GAP.

With the Royal Decree 1491 of 24 October 2011, the regulations for the adaptation of the GAP and the model for non-profit organizations is approved; until then, the institutions had applied the adaptation of the *Royal Decree 775 of 1998*, formerly mentioned. Said adaptation states that its rules are to be applied by all non-profit entities, and more precisely declares compulsory its application to all foundations of national competence and those with a declared public utility. As we mentioned in the previous section, this regulations is currently in force and regulates all NPO.

Even though the Royal Decree approving the Adaptation of the GAP for NPO states that said regulations will be applied to all foundations of national national competence and those with a declared public utility, the different autonomic laws for foundations refer to this accounting regulation. Thus, this is the only accounting model for all NPO and is therefore applied to all of these entities.

3.2. TAX REGULATIONS

The substantive regulation regulates the functioning of the foundations. In 1994, due to the fact that only one law existed, the substantial regulation of the foundations was coinciding with their fiscal regulation, but in the year 2002 the above mentioned regulations were separated, thus resulting on the substantial regulation, on the one hand, and on the fiscal rules or normative, on the other one, although both are completely connected.

There is a special regime for NPO regulated by the *Law 49 of December 23 2002 for the Fiscal Regime of non-profit organizations and the incentives to the patronage*, which basically focuses on the regulation of the Income Tax. All aspects unforeseen by this law will be regulated in accordance with the general rules for taxation.

Said law substitutes the Law 30/1994, establishing the fiscal regime of exemption in the Income Tax for NPO. It is necessary to emphasize that besides dealing with the applicable tax system in the Income Tax it also incorporates the fiscal benefits from which these entities can benefit with regards to local taxes and in the Property Transfer and Certified Legal Document Tax. It still ignores however the treatment of the Value-added tax (VAT). In this section we will focus on the practical aspects related to the Income Tax.

The fiscal incentives to the patronage can be defined as the set of fiscal deductions tending to the favoring of NPO's non lucrative attributions.

In order to benefit from the fiscal special regime established by the *Law 49/2002*, NPO must meet the following requirements:

- The pursuing of general interest goals
- To assign at least 70 for 100 of the following revenues to the fulfilling of the above mentioned purposes, within four years from the moment of their obtaining:
    - The revenues of all economic developments carried out.
    - All revenues deriving from the transmission of goods or rights.
    - Any income obtained under any other concept, after subtracting all expenses made in the obtaining of such an income.

      Any other revenues and incomes should be used to increase the patrimonial endowment or for reserve.

- Their activities must not consist on the establishment of economic developments foreign to their object or statutory purpose.

- The founders, partners, employers, statutory representatives, members of the organs of government and the spouses or relatives up to the fourth degree can neither be the principal addressees of the activities realized by the entities nor benefit from special conditions for the utilization of their services.
- The charges of the employer, statutory representative and member of the organ of government must be free of remuneration.
- The equity must be consecrated to some of the entities considered as beneficiaries of the patronage or to public entities of not foundational nature that promote objectives of general interest, in case of dissolution; furthermore, said condition must be included in the statues of the dissolved entity.
- To register in the corresponding registry.
- To fulfill the obligations expected within the corresponding regulation.
- To meet the accountability obligations.
- Specify on an annual basis the incomes and expenses of the exercise in an economic “Annual Report”.

All the entities which fulfill the previous requirements will be able to choose to abide to the special fiscal régime for NPO in the terms and conditions duly established. It is necessary to emphasize that in this fiscal regime, the type of charge applied on the resultant taxable base of non exempt revenues will be of 10 for 100. As stated in the article 13 of the Law 49/2002 "The entities opting for the fiscal regime established in this Title should declare in their Income Tax all of their revenues exempt and not exempt". Said obligation refers to census statistics, since in the practice the majority of the foundations obtain a quota to pay with regards to the IS which equals zero.

If any of the previous requirements is not fulfilled by the entities, they will be able to adopt the partially-exempt entities special regime, in which the type of charge applied on the taxable base is of 25 for 100.
Unlike the entities that enjoy the total exemption, the passive subjects - partially exempt must declare the totality of their revenues, exempt and non exempt, except for those that fulfill the following requirements, which will not have this obligation to present a declaration, as mentioned in the Remolten Text of the Law of the Income Tax article 136.3:

- The total income cannot exceed the limit of 100,000 Euros per year.
- The income corresponding to non exempt revenues you submitted to retention cannot be over 2,000 Euros per year.

- All the non exempt revenues obtained by the above mentioned entities must be submitted to retention.

Those opting for the application of this fiscal special regime will have to communicate the Tributary Administration by means of the corresponding censual declaration of their choice for the above mentioned fiscal regime.

4. ADAPTATION OF THE GENERAL ACCOUNTING PLAN TO NON PROFIT ORGANIZATIONS

This section constitutes the backbone of our study, in it we will compare the five points of both the GAP and the Adjustment of the GAP to NPO (from now on called Adjustment GAP) and will analyze their differences.

The structure of the Adjustment GAP is the same than that of the GAP and that of the GAP for SMEs, and is divided into five parts:

- 1st part: Accounting conceptual frame
- 2nd part: Registration and valuation procedure
- 3rd part: Annual accounts
- 4th part: Chart of Accounts
- 5th part: Definitions and accounting relations

4.1. ACCOUNTING FRAMEWORK

4.1.1. Annual accounts. Fair presentation

We find the first distinction in the composition of the annual accounts, since as the annual accounts are described in the GAP they are formed by: the balance sheet, the account of losses and earnings, the statement of changes in the equity, the memory of cash-flows and the Annual Report. On the other hand, in the Adjustment GAP the annual accounts are composed by: the balance sheet, the Income Statement and the Annual Report. This difference is due to the law of Foundations, in which only three documents were established, while this law has a superior range to the Royal Decree in which the Adjustment GAP is approved, the annual accounts of these entities consists of three documents previously mentioned: the balance sheet, the Income Statement and the Annual Report. This was not meant to reflect so much the equity variations so much as the less relevancy for this type of companies. Therefore, in the Royal Decree both the Income statement and the Equity Variations were joined in the same sheet, whereas the Statement of Cash Flows became a section of the Annual Report.

Likewise, in the Adaptation GAP "Annual Accounts should include relevant and trustworthy information regarding:

- The degree of accomplishment during in the exercise of the foreseen activities regarding the aims of the entity.
- The nature of the assets, liabilities and equity of the entity. In particular, any eventual restrictions operating over the assets.
- The exercise's surplus as a result of the accomplished activities, as well as a measurement of the self-financing capacity of the organization, while clearly showing the equity variation occurred during this period.
- The entity's equity total variation, as expression of its future viability and of the aptitude to accomplish with the purposes of general interest assigned.

4.1.2. Disclosure requirements in the annual accounts

In what concerns this paragraph, substantial differences regarding the GAP do not exist, so requirements are the same under both regulations.

4.1.3. Accounting principles

In this section we do not find any difference, that is to say, the regulating accounting principles are the same: going concern, accrual, consistency, prudence, offsetting and materiality.

4.1.4. Components of the annual accounts

The elements integrating the balance sheet are: assets, liabilities and equity, while the Income Statement (losses and gains sheets from a commercial point of view) consists of incomes and outcomes or expenses.

We must emphasize the great difference that we find as for the definition of assets done in the Adaptation GAP, we will no longer consider assets only those from which the company expects to obtain benefits or economic future yields, but **those on which**

there should be expectations of obtaining yields in the future, be it economic or not.

Therefore, in non-lucrative entities we find two types of assets: those that do not generate flows of cash and those that do. In this type of entities the majority are active not generating cash, they are own with the aim of generating social economic flows, that is to say, that with them a general benefit for a number of people could be obtained. On the contrary, as its name states, with the cash generating assets the entities try to obtain commercial returns, this type of assets will be present only in those entities carrying out mercantile activities.

4.1.5. Recognition criteria for elements of annual accounts

Due to the change in the definition of assets, there is a change regarding their registration. Thus, the assets will be recognized in the balance sheet when it should be probable the obtaining of usable yields deriving from their future activity.

4.1.6. Measurement criteria

In the Adaptation GAP we can observe differences regarding the value in use of the non generating cash assets, whereas the value in use of the units generating cash will not suffer any modification, being the current value of the future awaited flows of cash updated to a market interest rate without risk.

Thus, the value in use of the not generating cash assets is the current value of the assets considering their potential of future service in the moment of the analysis, this amount is calculated by means of the cost of reinstatement, therefore, in the above mentioned regulation we find a new valuation criterion: the cost of reinstatement of an asset.

As stated in the Adaptation GAP, “the cost of reinstatement of an asset is the current amount that should be paid if an asset were acquired with the same quality or potential of service, less, in its case, the accumulated amortization".

4.1.7. Generally accepted accounting principles

Regarding this point, having realized the comparison of both regulations we do not observe any variation between the GAP and its Adaptation to NPO.

4.2. RECOGNITION AND MEASUREMENT STANDARDS

In this section we will focus on explaining the peculiarities found with regard to the regulation of the NPO.

This type of entities can also exercise mercantile activities, though these are not the activities their usual activities, provided that the surpluses obtained be destined to activities of general interest. In this respect, the rules for valuation and registration contained in the GAP will be applied.

The procedure contained in the Adaptation GAP refers to the special characteristics of these entities, and so they will be applicable when the entities carry out activities orientated to their expected purpose, that is to say, to offer services of general interest.

We find abundant aspects that differ from the regulation gathered in the GAP and, therefore, they must receive a special mention since they gather the peculiarities of the non-lucrative entities.

The procedures regulating the aspects which must receive a particular treatment are gathered in the Adaptation GAP and are based on the special nature of the units which do not generate flows of cash.

4.2.1. Property, plant and equipment

A possible classification of the tangible assets could be based on its ability to generate cash, therefore, we distinguish between tangible assets generators of cash flows and tangible assets not generating cash flow. The latter usually compose the majority of the assets of this kind of entities, which have a different purpose to that of generating a commercial yield, unless the NPO performs any mercantile activity.

The most prominent difference of the Adaptation GAP resides in the evaluation of the deterioration of the non-generating cash assets.

In the non-generating cash assets the deterioration means the decrease of the utility that contributes to the benefit of the entity, as established by the GAP, the potential loss of service of an asset.

To perform the test of deterioration, it is necessary to compare the value in books and the recoverable amount of the good, which is the bigger value between reasonable value less the costs of sale and value in use. The latter is the one that generates the discrepancy with regard to the valuation according to the GAP, since in the non-generating cash units the value in use will be the cost of reinstatement of the assets.

On the other hand, we find differences with regard to the valuation of the barters. In those in which assets not generating cash are exchanged, the Adaptation GAP establishes that they must be treated like not commercial barters, that is to say, the received good will be valued according to the book's value of the dedicated good plus paid monetary counterparts, or pending on payment, with the limit of the reasonable value of the received good if the above mentioned amount was minor. However, in the barters in which assets generating and not generating cash are exchanged, the procedure established in the GAP (RD 1514/2007) will be applied.

We must also emphasize the valuation of the elements of fixed assets contributed to the endowment or social fund, which will have to be valued according to its reasonable value in the moment of the contribution and will be imputed directly to the Equity of the entity.

4.2.2. Intangible assets

In the Adaptation GAP of the NPO we find disparities in the treatment of the expenses of research and development classified like assets not generators of cash. One of the requirements that must fulfill these expenses to be activated is having reasons over their generation of a potential service in the future activity, and so in these entities it is not necessary to generate an economic - commercial profitability in the future, unlike the mercantile GAP.

Concerning the goods yielded in use without consideration to the entities without lucrative purposes (normally real estate), it is necessary to emphasize that the entity that uses the good without being an owner acquires a right of use. Therefore, provided that the entity is going to use the above mentioned assets for its own activity, it will have to acknowledge an intangible fixed asset valued depending on the reasonable value of the right in use, which might be the market rent of the good. On the other hand, any free services for NPO should be registered in the Income statement as an expense, while at the same time generating revenue for the reasonable value of the above mentioned service, and so the effect in the Income statement will be void.

4.2.3. Historical Heritage Assets

Another difference with great relevancy in the non-profit organizations is the appearing of a new item in their not current assets, more precisely the Historical Heritage Assets. As they are not contemplated in the commercial GAP, it will be devolved more thoroughly.

According to the article 1, paragraph 2 º of the Law 16/1985, of June 25, of the Spanish Historical Spanish Heritage: "the real estate and objects integrating the Spanish Historical Spanish are those of artistic, historical, paleontological, archaeological, ethnographic, scientific or technical interest, as well as bibliographical, the deposits and archaeological zones, and the natural sites, gardens and parks that have an artistic, historical or anthropologic value". Thus, the Goods of the Historical Spanish Heritage are those elements that the community aims to preserve for reasons of artistic or cultural nature.
One of the main characteristics of these goods is that they cannot be replaced and have an independent category within the balance sheet, in the entity's not current assets, as we have previously mentioned.

Concerning its valuation the procedure of the tangible assets will be applied, that is to say, the goods will be valued initially by their historical cost. If the above mentioned amount cannot be decided accurately, their price of acquisition will be established by the value of the expenses of its maintenance or conditioning.

In addition, these patrimonial assets will not be amortizable when their estimated useful life is indefinite, since it would be pointless to amortize them, and for the same reason they need costly repairs. In this sense, it is necessary to emphasize that the amounts derived from the big repairs will imply an increase of the value of the good and will be amortized during the period running until the next repair, thus canceling said value of the great repair when the new one takes place.

(See example 1 of annex I)

4.2.4. Credits and debits

We distinguish between credits for own activity and debits for own activity.

As stated in the Adaptation GAP, " The credits for the own activity are the collecting rights that originate in the development of the own activity as opposed to the beneficiaries, users, sponsors and members ". These generate a collection right that must be assessed by its nominal value if their expiration in the short-term, if said expiration is longer they will have to be valued according to their current value, in addition the above mentioned assets are subject to a value correction for deterioration at least at the closing of the exercise or fiscal year.

On the other hand, according to the Adaptation GAP "The debits for the own activity are the obligations that originate for the concession of helps and other assignments to the beneficiaries of the entity in fulfilling their own purposes". These give place to liabilities, that will generally be recognized in the same way as the credits for the own activity, by their nominal value when the expiration should take place in the short term, and by their current value when it is in the long-term.

4.2.5. Inventories

The regulation relating to the stock of the entities without lucrative purposes, we will name the most prominent differences that we have found. It is necessary to regarding point out that in this work the regulation relating to the stock will not be developed, since in the NPO these do not have great relevancy.

The procedure included in the Adaptation GAP gathers diverse peculiarities about the valuation of stock in the NPO. On the one hand, the stock used for the accomplishment of the purposes of these entities, be it free or for an amount lower than the market value, will have to be valued according to its reasonable value, whereas free services provided by NPO will cause an expense equal to the amount of their countable value.
Concerning the deterioration of these, the recoverable amount will be the bigger one between the net realizable value and its cost of reinstatement.

4.2.6. Income tax

Income Tax is regulated by means of the *Law 49/2002, of December 23, of Fiscal Regime of the Non-profit organizations and of the fiscal incentives to the patronage*.

The calculation of the expense for current tax for the NPO differs substantially from the one realized for the lucrative entities, since the majority of the income of this type of entities are fiscally deducible, and therefore they are permanent differences to effects of the Income Tax, as it happens with the own expenses of these entities.

4.2.7. Income and expenses of non-profit organizations

The own expenses of the NPO are the expenses in which the entity incurs to be able to carry out the functioning of the same one, the development of its purposes or its activities of capture of funds. Therefore, in what concerns the own expenses of the NPO we do not find relevant differences with regard to the treatment received in the managerial area.
This type of expenses must be assessed in income statement of the entity, concretely, in the accounts of “External Services (Subgroup 62) ". They will register depending on the principle of the income, that is to say, in the moment in which one incurs them, though we find some exceptions, for example, the expenses that are assessed in the moment in which liabilities approves its concession with credit to an account of liabilities.
With regard to the own income of the NPO they can be defined as the own resources that the entity obtains proceeding from the exercise or fiscal year of an activity (which is not the base of the corporate purpose), of punctual actions of collection directed a concrete reason or of the own yield or return obtained by the investment of its surpluses in treasury or of another type of assets. Unlike it was happening with the expenses, the income yes that they differ with regard to the income of the companies or lucrative entities, since the nature of the same ones is very different. The income obtained by the NPO comes principally of: the subsidies, the quotas of the partners and of the sponsorship, between others.

In this type of entities the income will register in accounts of the subgroup 72 "Own income of the entity". In addition for its accounting it will have attend to a series of rules, as 8 are established in the Adaptation GAP, norm of valuation eighth:

- "The income for deliveries of goods or provision of services will value for the approved amount.
- The quotas of users or members will be recognized as income in the period to which they should correspond.
- The income proceeding from promotions for capture of resources, of sponsors and of collaborations will be recognized when the campaigns and acts should take place.
- In any case, the necessary divisions in periods will have to be realized ".

These also will have to be registered according to the accrual basis and will suppose current increases inside the account of patrimonial variations.

4.2.8. Grants, donations and bequests received

Unlike the regulation gathered in the business GAP about the grants, donations and bequests, in the Adaptation GAP these are develop with major precision due to the fact that grants, donations and bequests represent a big percentage of the own income of these entities, being able to manage to suppose approximately 60% of the total of their income, whereas in a lucrative entity these barely represent 1 %. For it, the recognition and measurement standards of the Adaptation GAP dedicate a great extension, managing to be the principal regulation with regard to the rest of the total regulations

.

First, we are going to differ between the concepts of grant and donation or bequest. A grant can be defined as the delivery of a quantity of money by the Administration to an individual, without obligation to reimburse it, in order that it realizes a certain considered activity of public interest. Whereas a donation is a transfer of a good of an individual, company or entity to other one, granted free of charge without any type of condition.

It brings over of the same ones multiple classifications exist:

- Depending on its purpose, that is to say, of the intention for which they are granted: capital grants, used to finance long-term investments, and current grants (named subsidies of development in the area of the companies) destined to the habitual operations, that is to say, to finance the current expenditures of the entity.
- Depending on who award the grant: official grant awarded by public entities,

and not official grant awarded by companies or private entities.

- Depending on its enforceability: returnable grants and not returnable grants. Those with returnable character, are characterized by the existence of the obligation to return the funds due to the fact that they do not fulfill the requirements or requirements to be considered to be not returnable and can acquire later this character, on the contrary in the subsidies of not returnable character the above mentioned obligation does not exist and, therefore, they will receive a different accounting treatment.

It is necessary remember, as we have discussed above, grants are one of the main ways in which non-profits get financing, thus in the Adaptation GAP these require special consideration and therefore are developed with more attention.

By focusing on the accounting treatment of grants, donations and bequests in non-profit organizations difference between those who are non-returnable and those they do have.

First, those grants, donations and bequests that have the character of non-returnable at first be recognized in equity of NPO and subsequently they will be transferred as income surplus for the year. Similarly those grants, donations and bequests that obtained without any specific purpose be recorded directly in the surplus for the year, as discussed below. Exceptionally, an entity registered directly in their equity capital grants that have been awarded by way of foundation endowment, whether those have been awarded by the members, founders or patrons as those made by a third party.

On the other hand, grants, donations and bequests returnable will be accounted as a liability of the entity to obtain the time not returnable.

In Adaptation GAP we found a set of precepts or criteria to help classify grants, donations and bequests as returnable or not returnable:

- Acquire character not returnable those that have been granted for the acquisition of an asset, if it has been obtained.
- They may be considered non-returnable those that have been granted for the construction, improvement, extension or renewal of an asset and those require the implementation of good operating. With the condition that at the end of this year work has been fully implemented, or partially but there are no reasonable doubts about the end of it.
- Finally, as in the previous case shall be considered non-returnable those which

have been granted to finance specific items of multiannual implementation and require the completion of the action plan, as long as at the year end has been executed the plan on their whole or in part, but there is no doubt that this will take place.

Note that in cases where the NPO act as a simple intermediary, grants, donations and bequests have no impact on your bottom line, that is, shall not reflect any income but should only recognize corresponding cash movements.

With respect to the evaluation criteria, as indicated Adaptation GAP, grants, donations and monetary bequests should be valued at the fair value of the amount awarded; while for the assessment of those with non-monetary fair value of goods or services received is used. (See example 2 of Annex II)

Then we will analyze how what are imputed grants, donations and bequests in excess of the exercise. This does not distinguish whether they are monetary or not, since both will be recorded in the same way provided that they refer to the same asset or liability. Therefore, the complaint shall be made according to the same destination, so that the difference between Adaptation GAP: those obtained to cover specific expenses and you are granted with the intention of acquiring assets or liabilities to cancel.

Grants, donations and bequests to fund specific expenses of the activity must be counted as income in the income statement in the year in which the expenses that they are covering are generated. (See Example 3 of Annex II)

Regarding subsidies, gifts and bequests in order to buy assets or settle liabilities Adaptation GAP difference several cases based on which the complaint will be different:

- Grants, donations and bequests obtained for the acquisition of Historical Heritage Assets, financial assets or stocks that have not been acquired because of a commercial rappel be recorded or imputed as income for the year in which occurs disposal, valuation allowance or come down.
- Now we will focus on grants, donations and bequests granted to acquire intangible assets and tangible fixed assets and investment properties and those used to offset costs of major repairs Historical Heritage Assets. These will be imputed as income but considering the rate at depreciation charge made in the year for such items or the moment his disposal, impairment losses or loss of balance occurs.
- Also find those grants, donations and bequests for the cancellation of debt.

These will generally be recorded as income in the year in which it is made, exceptionally imputation is made according the funded element, if they are granted for a specific funding.

Finally, it is necessary to clarify that should not be classified as grants, donations and legacies those non-cash aid and services effected by volunteering.

4.2.9. Mergers between non-profit organizations

In the same way as it happens with the companies, the NPO also can fuse with other entities. In this case, the resultant entity of the merger will have to value the wealth assets depending on the countable values of the same ones before the merger was realized.

The above mentioned procedure only will have to be applied to those operations it is those who only inform NPO. Nevertheless, in case an entity without lucrative purposes buys a business, they will have to be applied the regulation gathered in the managerial GAP.

The Equity of the entities participants in the merger will be penetrated to the resultant entity forming this way its Equity, and at this moment the credits or debits that the company could have will have to be cancelled.

4.3. ANNUAL ACCOUNTS

In this section we will focus in the analysis of the annual accounts of the non-profit organizations (NPO) and we will realize the comparison between the GAP and the Adaptation GAP.

In the NPO the annual accounts are integrated by the balance sheet sheet, Income statement and Annual Report, which will be analyzed by more depth later on, whereas according to the business GAP in the companies the annual accounts are understood for: the balance sheet, the profit and losses account, the statement of changes in equity, the statement of recognized income and expenses and the annual report. Though the annual accounts of the NPO are composed only by three financial statements, it does not want to say that the rest they do not perform importance for the entities.

In addition, as we have commented previously, it is necessary to remember the appearance of a new accounting statement, its **Income statement**, which is not contemplated in the business GAP. This includes the statement of recognized income and expense and the statement of changes in equity. For what it concerns to the treasury, also it has relevancy in these entities, so that the statement of cash flows will have to be included inside the annual report of the entity.

According to the Adaptation GAP, the annual accounts must be formulated for the organ of administration (Patronage) in the maximum space of three months from the closing of the exercise or fiscal year in order that these are elaborated, and from the above mentioned moment other three months in order that these are approved.

At the moment of elaborating the annual accounts we find different models for which they will be able to choose the organizations: normal model, abbreviated model and simplified model.

Generally the annual accounts both of the NPO and of the companies will have to be formulated according to the normal model, but we find different cases in which it will not be like that.

In order that the non-profit organizations could made its annual accounts (balance sheet, income statement and annual report) according to the abbreviated models, this will follow the same criteria applied to companies, which are reflected both in business GAP and in their adaptation GAP to non-profit organizations.

Therefore, we emphasize that the parameters to apply in NPO no substantial differences from those applied in enterprises.

In addition, it is necessary that there are certain non-profit organizations because of

their size can apply the GAP for Small and Medium Enterprises (SMEs GAP), such as unreported associations of public utility. Therefore, when the NPO applying GAP to SMEs formulate balance, income statement and annual report according to the abbreviated models.
On the other hand, those ESAL implementing the specific criteria of micro-entities should develop both the balance sheet and the income statement under the abbreviated model, and in turn, to the development of annual report can always opt for the simplified model that institution meets two of the following criteria:

- The total assets not exceeding one hundred and fifty thousand Euros.
- Net volume of annual income is at or below one hundred fifty thousand Euros.
- The average number of employees is equal to or less than five employees.

There are certain NPO who are required to have their annual accounts audited as: foundations of state competition and associations declared of public utility, but the circumstances that generate this obligation are different for each case. Therefore, according to the Law on Foundations they will be forced to the audit if the year end meeting two of the following situations:

- The total assets exceeding 2.45 million Euros.
- Net income of the annual volume exceeding 2.45 million Euros.
- The average number of employees over fifty employees.

While in the case of associations declared of public utility shall be required to have their accounts when external audit should ask the same as the standard model.
It should be noted that in the event that the annual accounts of the companies will be audited, they shall be made within three months from the end of the year.

4.3.1. Balance Sheet

Later we go away to focusing in the balance sheet of the NPO, in general between the items that compose it we find some difference, but these are not substantial as it will happen hereinafter in the analysis of its income statement.
With regard to the elaboration of the same one, the regulation of the GAP will be applied by small modifications, if due to the limits or established requirements the entities must formulate balance sheet according to the brief model.
The difference that we find between a balance sheet normally and the brief one resides in the degree of detail of the above mentioned financial statement, since if the entity

chooses for its production depending on the brief model it will not turn out necessary to specify the amount of every sub-account that the different items accounts, but it will be enough to indicate the total amount of every item that the different estate capitals compose.

In the NPO, focusing on the production of the balance sheet in comparison with the GAP we stand out, as it is named in previous paragraphs, the appearance of a new item named Goods of the Historical Heritage, besides the transformation of the item of Share capital by the so called Endowment foundation in the Equity of the entity.

In the first table included in Annex I, we can observe the differences in the development of a balance sheet according the General Accounting Plan and according their Adaptation to non-profit organizations *(See table 1 of annex I)*

4.3.2. Income Statement

In the NPO the account of losses and earnings is replaced for its "Income statement ". This one is not included in the business GAP but only it is contemplated in the Adaptation GAP for the NPO, as stated in the same one: " The Income statement contain all the variations originated in the equity along the exercise, for the following concepts:

- The surplus of the exercise.
- The amount of the income or expenses recognized directly in the equity, according to the needed for the procedure of record and valuation.
- The transfers or reclassifications realized to the surplus of the exercise, according to the needed for the procedure of record and valuation.
- The adjustments due to changes in accounting criteria and corrections of mistakes.
- Variations in the endowment foundation.
- The remaining variations that are produced in the equity.

In order that it turns out to be more understandable, we can say that its income statement it consists of: the profit and losses account and the statement of changes in equity. The profit and losses account contains all the income and expenses which the entity incurs during the economic exercise and gives place to the surplus. Whereas the statement of changes in the equity contain all those variations of equity generated for motives different from the surplus of the exercise.

The classification of the income and expenses in the income statement it is do according to the nature of the expenses, in addition this follow a model of vertical presentation.

In the same way as it happens with the balance sheet, the difference between the normal model and abbreviated model of its income statement there is in less development of the items that compose the same one.

4.3.3. Annual report

From the point of view of the Adaptation GAP of the NPO we find some substantial differences with regard to the business GAP. One of them, it resides in that those NPO that together make so much not lucrative as lucrative activities of mercantile character, will see obliged to differentiate both the fixed assets and the stock and the expenses and income of development as if they are sympathetic on the mercantile activity or not, which will give place to a result of the development differentiated depending on the type of activity (result of development of activities own and result of development of mercantile activities).

In addition, as stated in the Adaptation GAP, in the NPO it is advisable to differentiate three groups of assets: assets with permanent restrictions, assets with temporary restrictions and assets without restrictions of use.

We might say that the most relevant thing in relation to the annual report and to the NPO, is the possibility of being able to formulate the same one adjusting to the simplified model not contemplated in the business GAP, besides abbreviated model as it happens to the balance sheet and the income statement.

Unlike the GAP, the Adaptation of the NPO includes inside the annual report the statement of cash flows, due to the fact that this one is not included in the annual accounts of this type of entities.

In the second table included in the Annex I, we can observe the different points that the annual report must be made according t the Adaptation of General Accounting Plan to non-profit organizations. *(See table 2 of annex I)*

In addition, according to the established in the business GAP the lucrative entities will have to include in the annual report the bases of presentation of the annual accounts, whereas for the NPO that apply the procedure established in the Adaptation GAP it will not be a requirement as for the content of the above mentioned document. With regard to the abbreviated model of annual report contemplated in the Adaptation of the GAP, we observe as the same one it is written of a more summarized form, contributing that more relevant information to facilitate the comprehension of the annual accounts; in the elaboration of the abbreviated annual report we can emphasize the absence of the paragraph dedicated to the condition of flows of cash in comparison with the normal model.

5. CONCLUSION

Once realized the analysis we will examine the principal conclusions that are extracted from the same one. As we announced in the introduction, and as one can have verified along the work, we may affirm that the managerial accounting differs from the applicable to non-profit organizations. Later we will comment on those more substantial differences and that, therefore, have major relevancy.

In this line, a key aspect is the new definition of assets that contributes the Adaptation GAP since due to the above mentioned change will change the record of the assets. Of this form an assets will have to be recognized in the balance sheet when of the same one future yields should expect to be obtained by independence of which these are economic or not, unlike the business GAP in which only will be recognized as assets those on which there should exist possibilities of economic future yields. Therefore in these entities we are found a new type of assets, the not generating assets of flows of cash. These compose the majority of the set of assets that the entity has, whereas those that have the condition of generators of cash only will give each other when the NPO realize some type of mercantile activity. With regard to the treatment of these, the only difference resides in its value use that will decide from the cost of reinstatement of the good.

Also stands out the creation of a new item inside the intangible assets of these organizations, "Rights of use on assets assigned". By this account we registered the rights of use of the assets assigned that are transferred to the NPO on the part of other entities or persons, providing that the above mentioned goods are going to be used by the not lucrative entities for the attainment of its purposes.

On the other hand, we must also point out the Historical Heritage Assets, included in the not current assets, which as the previous is not contemplated in the business GAP. This type of assets are not amortizable, but they need repairs, which will have to be amortized.

Another aspect to which we have dedicated great importance to in this work they are the grants, donations and bequests, due to the fact that as we have commented in numerous occasions these represent the base of the income of the not lucrative entities, whereas in the managerial area they have relevancy very small. For it, in the Adaptation GAP for the NPO there develop with great detail and extension its procedure of record and valuation.

To finish, in the annual accounts also we find big prominent questions. The annual accounts of the NPO only include the balance sheet, its income statement and the annual report, which represents a great difference with regard to the business GAP. Nevertheless, this is a difference more formal that a substantive difference because somehow so much the statement of changes in equity like the statement of cash flows also is included in the financial statements of the not profit organizations. The statement of cash flows is included in the annual report of the above mentioned entities, whereas the statement of changes in equity together with the statement of recognized income and expense and the surplus of the exercise those form the income statement that substitutes the profit and loss account contained in the business GAP.

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7. ANNEX

7.1. ANNEX I

In the following table, as mentioned above, are included the differences in the development of a balance sheet according the General Accounting Plan and according its Adaptation to non-profit organizations as.

TABLE 1:

BALANCE SHEET

GENERAL ACCOUNTING PLAN	ADAPTATION OF THE GENERAL ACCOUNTING PLAN
ASSETS	ASSETS
A) NON-CURRENT ASSETS	A) NON-CURRENT ASSETS
I. INTANGIBLE ASSETS	**I. INTANGIBLE ASSETS**
	6. Rights of use on assets assigned
	II. HISTORICAL HERITAGE ASSETS
	1. Immovables property
	2. Files
	3. Libraries
	4. Museums
	5. Movables property
	6. Advances on historical heritage assets
B) CURRENT ASSETS	B) CURRENT ASSETS
I. NON-CURRENT ASSETS HELD FOR SALE	**I. INVENTORIES**
	1. Assets used in the activity
II. INVENTORIES	**II. USERS AND OTHER ACCOUNTS RECEIVABLES FOR THE ASSOCIATION'S OWN ACTIVITY**
1. Goods for resale	
III. TRADE AND OTHER RECEIVABLES	**III. TRADE AND OTHER RECEIVABLES**
7. Receivable on called-up capital	7. Founders on called-up capital
TOTAL ASSETS (A+B)	

Source: prepared by the author

BALANCE SHEET

GENERAL ACCOUNTING PLAN	ADAPTATION OF THE GENERAL ACCOUNTING PLAN
EQUITY AND LIABILITIES	**EQUITY AND LIABILITIES**
A) EQUITY	A) EQUITY
A-1) EQUITY CAPITAL	**A-1) EQUITY CAPITAL**
I. CAPITAL 1. Registered capital 2. Uncalled capital **II. SHARE PREMIUM** **III. RETAINED EARNINGS** 1. Legal and statutory retained earnings **IV. OWN SHARES AND EQUITY HOLDINGS** **VI. OTHER EQUITY HOLDER CONTRIBUTIONS** **VIII. INTERIM DIVIDEND** **IX. OTHER EQUITY INSTRUMENTS** **A-3) GRANTS, DONATIONS AND BEQUESTS RECEIVED**	**I. FOUNDATION ENDOWMENT** 1. Foundation endowment 2. Uncalled foundation endowment **II. RETAINED EARNINGS** 1. Statutory retained arnings **A-3) GRANTS, DONATIONS AND BEQUESTS RECEIVED**
	1. Grants 2. Donations and bequests
B) NON-CURRENT LIABILITIES	B) NON-CURRENT LIABILITIES
C) CURRENT LIABILITIES	C) CURRENT LIABILITIES
I. LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**IV. BENEFICIARIES - CREDITORS**
TOTAL EQUITY AND LIABILITIES (A+B+C)	

Source: prepared by the author

In the second table, we found the different points that the annual report must be made according the Adaptation of the General Accounting Plan to non-profit organizations. Furthermore, we highlight those points that are not included in the corporate General Accounting Plan.

TABLE 2:

ANNUAL REPORT
1. Activity of the organization
2. Surplus of the exercise
3. Recognition and measurement standards
4. Property, plant and equipment
5. Historical Heritage Assets
6. Users and other accounts receivable for the association's own activity
7. Beneficiaries - Creditors
8. Equity capital
9. Inventories
10. Taxation
11. Income and expenses
12. Mergers between non profit organization and business combinations
13. Activity of the organization. Application of assets to the association's own purposes. Administrative expenses
13.1. Activity of the organization
13.2. Application of assets to the association's own purposes
13.3. Administrative expenses
14. Related-party transactions
15. Other information
16. Statement of cash flows
17. Inventory

Source: prepared by the author

7.2. ANNEX II

In this section we will apply through examples the regulations most important with respect to the of non-profit organizations.

EXAMPLE 1:

Suppose a non-profit organization buys the 1 January 2014 a property declared Historical Heritage Asset with indefinite useful life and whose purchase price is 530,000 euros. This acquisition also entails some costs of packaging every three years of 9,000 euros, they must incur at the time of acquisition.

At the time of acquisition (year 2014):

539,000	(240) Property	(57) Cash	539,000

The Historical Heritage Asset is not depreciable but the value of costs of packaging that increase the value of asset yes that are depreciable:

3,000	(681) Depreciation of property, plant and equipment	(281) Accumulated depreciation of property, plant and equipment	3,000

We also would do this entry book in 2015 and 2016.

In the year 2017, at the time that we incur again in costs of packaging, we will do the following process: on the one hand, we will retire the value of costs of packaging and their depreciation; on the other hand, we will register the value of new repair that will increase again the asset value.

9,000	(281) Accumulated depreciation of property, plant and equipment	(240) Property	9,000

9,000	(240) Property	(57) Cash	9,000

The same process will be repeated for the asset life.

EXAMPLE 2:

Suppose a non-profit organization receive a furniture in concept of donation by a private entity, whose purchase price was 8,000 euros and its fair value is estimated in 6,500 euros.

6,500	(216) Furniture	(132) Other grants, donations and bequests	6,500

EXAMPLE 3:

Suppose a non-profit organization receive a grant of 3,800 euros by the public administration for cover the costs derived of the implementation of a learning courses for adult people.

3,800	(57) Cash*	(130) Government capital grants	3,800

* Instead of the account could be used the account “(4708) Grants receivable”

After that when the accrual of expenses occurs, this will be reclassifies as income in the Income Statement of the organization.

3,800 (130) Government capital grants	(745) Capital grants taken to income 3,800